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1971 in Brief

Financial	1971	1970
Operating revenue	\$48,298,928	\$43,388,643
Operating expenses		
before depreciation and amortization ...	40,813,388	38,979,920
Operating cash gain	7,485,540	4,408,723
Depreciation and amortization		
of introductory costs	2,799,255	3,087,205
Operating income	4,686,285	1,321,518
Deferred income taxes (recovery)	1,473,101	(168,200)
Net earnings (loss) for the year	1,437,844	(231,624)
Common shareholders' equity	6,462,418	5,578,531
Earnings (loss) per common share	1.46	(0.32)
Earnings per common share — diluted ...	1.26	
Operations		
Passengers carried		
Mainline	1,036,873	789,259
International charter	43,043	69,975
Domestic charter	33,675	28,400
Passenger miles flown		
Mainline	256,451,957	209,006,575
International charter	173,905,288	295,735,974
Domestic charter	30,786,693	25,782,515
Cargo ton miles flown		
Mainline	6,326,060	5,554,418
Charter (excluding Hercules)	2,918,195	2,116,578
Hercules	20,413,493	18,924,387
Aircraft miles flown		
Mainline	6,921,632	6,064,516
International charter	1,530,329	2,603,202
Domestic charter (excluding Hercules) ..	939,378	850,669
Hercules	2,050,166	1,991,839

Chairman's Report

The year 1971 was a notable one for Pacific Western Airlines Ltd. Much improved earnings enabled the Directors to declare a dividend on the common shares of the company for the first time in its history.

Favourable financial markets permitted the company to renegotiate some existing obligations at much more favourable rates. This process is continuing. Late in 1971 the company redeemed its existing first and second preferred shares and successfully marketed a new Series A preferred stock, which is convertible into the common shares of the company. This financing produced more than \$2,200,000 in additional equity capital for the company.

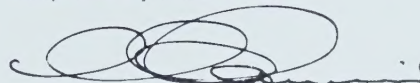
In December Mr. Egerton King of Edmonton, Mr. Ron Southern of Calgary, and Mr. David Searle of Yellowknife were appointed to the Board of Directors. These men are highly regarded in Canadian business and professional circles and we look forward to the contribution they will make to the guidance of your company's affairs.

In addition to the regular meetings, your Board of Directors met in Yellowknife in June and in Edmonton in December. Both occasions gave your Board the opportunity of meeting with the senior government and business leaders in those areas.

The operations of Byers Transport, since its acquisition by Pacific Western Airlines Ltd., have not been satisfactory. During 1971 a survey was made of this company and on the recommendation of a leading trucking consultant, Monarch Transport of Edmonton was acquired and both operations brought together into a new subsidiary — Byers Transport Ltd., operating as Pacific Western Trucking Division. Satisfactory financing has been obtained which will permit it to embark on a fleet up-dating program. It is anticipated that a profitable operation of this subsidiary will be achieved in 1972.

The outlook for 1972 is favourable and with a strong management group and dedicated employees, your company can look forward with confidence to the future.

Respectfully submitted,



B. C. SAMIS, *Chairman of the Board*

President's Report

The year 1971 has been both a challenging and rewarding one for your company. In spite of the continuing slow pace of the Canadian economy, our traffic and revenues showed favourable increases. The overall improvement in revenues and profitability was achieved by rigid costs control, coupled with aggressive action on the part of each employee. This was achieved in the face of a continuing decline in the air transportation industry. The increase in gross revenues was accomplished in spite of the planned reduction in International charter activity by the disposal of one Boeing 707 which had generated sales of \$3,400,000 in 1970. There was a compensating increase in the other areas of your company's operation of \$8,300,000 or 20%. The year also saw the completion of the operational integration of B.C. Air Lines. The resulting economies, together with a growth in revenues of \$4,910,000 to a total of \$48,300,000, resulted in an operating cash gain of \$7,486,000 or 70% greater than the previous year, and produced net earnings of \$1,438,000. The operating cash gain was improved by nearly \$3,000,000 when compared with 1970, and net earnings for the year after provision for deferred taxes improved by nearly \$1,670,000 when compared with 1970. Without dilution, this provided net earnings per common share of \$1.46 compared with a loss the previous year. Total revenues gained by 11% over 1970, while operating expenses were held to a 5% increase.

During the year the debentures of General Dynamics and Rolls-Royce were refinanced through a \$2,500,000 term loan with conditions favourable to your company. We have also been able to negotiate a \$4,500,000 revolving credit with our bankers with a consequent improvement in our position.

Your company has been able to refinance in 1972 the Hercules Chattel Mortgage at a much more favourable rate which will result in substantial savings over the life of the contract.

I would also like to point out the more than \$2,200,000 improvement in the company's working capital position at year end.

The successful issuance and sale of 120,000 preferred shares improved the equity position of your company by \$2,200,000 after redemption of the previously existing 1st and 2nd preferred shares and re-affirmed investor confidence.

In late March two Lockheed Electra aircraft, in a combination passenger and cargo configuration, were introduced to the fleet to perform resupply operations to the petroleum industry in the Arctic and some mainline support. Very late in the year the fifth Convair 640 was received, but necessary configuration changes required for our operations did not permit its use until 1972. The four Nord aircraft that came with the B.C. Air Lines acquisition were returned during the year and arrangements completed for the sale of the spares and support equipment peculiar to the aircraft type.

We have been able in 1972 to negotiate with the Export Import Bank of the United States, and a Canadian bank, a long term loan for the purchase of the fifth Boeing 737 Fan Jet at a very favourable interest rate. The advanced model aircraft will be the first in Canada with a wide-bodied look interior and will join the company fleet prior to the Spring schedule change in May.

Charter and contract activity maintained a high level throughout the year with the three Hercules supporting the Arctic oil exploration and also engaging in specialized overseas hauling.

The 707 continued to provide overseas charter flights and, together with some support from domestic 737's, engaged in an expanding inclusive tour programme. This type of tour is becoming very popular and should provide substantial revenues in the year ahead.



We consider 1971 as the turn-around year and the excellent results could not have been achieved without a wholehearted effort by all employee members of Pacific Western. The support I have received has been outstanding and has made my task a very gratifying one.

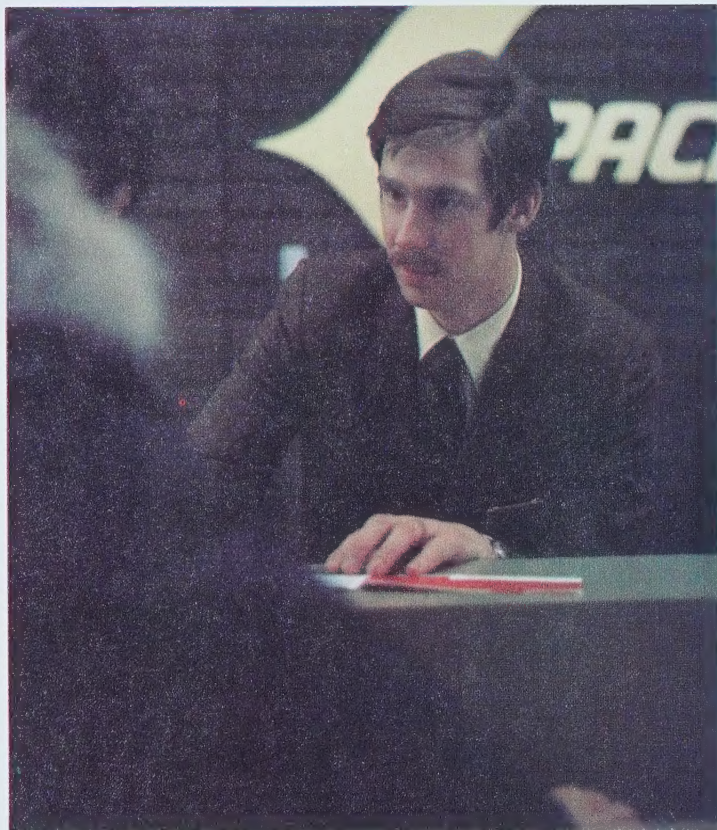
I commend to you the reading of the General Manager's Report and Financial Statements that follow in this Annual Report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "D. N. Watson".

D. N. WATSON, *President*

General Manager's Report



A complete review of and alterations in your company's structure were completed during the early part of the year, resulting in an organization better able to adapt to the constantly changing conditions that are so prevalent in our industry. The benefits that have been experienced are demonstrated by the improved financial results as detailed in the statements accompanying this report.

Operations

Mainline and other domestic services continue to produce the major portion of our total revenues, accounting for 85%, and are of course the areas to which the greatest concentration of management and employee effort

is directed. In this area also, fleet planning is of prime importance.

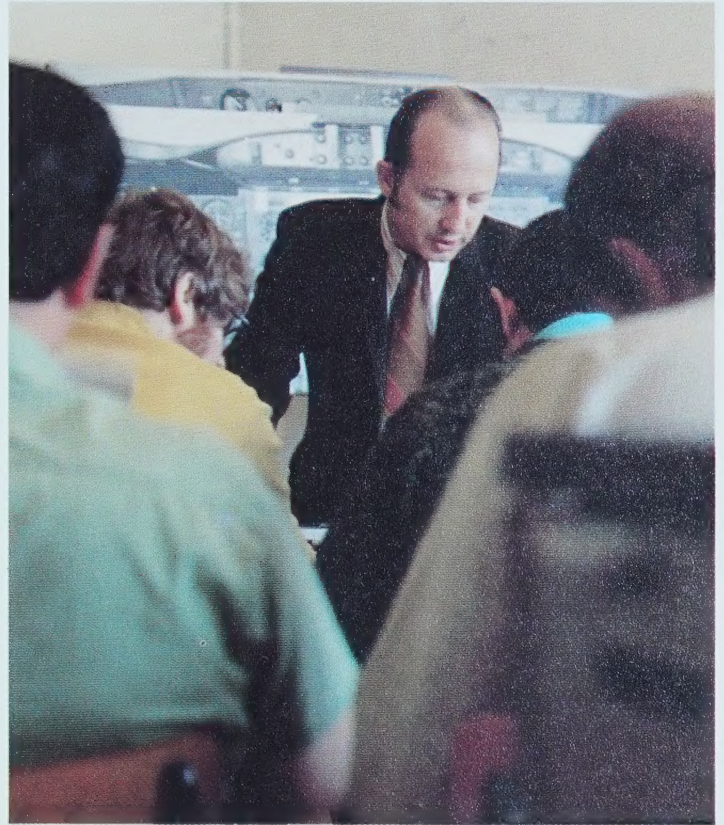
Computer analysis of growth and uplift requirements indicated the need for a fifth Convair 640 in the Fall of 1971 and the addition of a fifth Boeing 737 Fan Jet in the Spring of 1972. These additions to the aircraft fleet will permit more flexible scheduling and will change the pattern of service in the Southern Interior of British Columbia, allowing non-stop service between the Okanagan and Calgary. They will also permit the change from turbo-prop to jet on the B.C. North Coast service to Sandspit and Prince Rupert. During the year two L-188 Lockheed Electra aircraft were leased to provide



additional support to the High Arctic oil exploration activity and to supplement the Mainline and Charter activities. These aircraft have received good customer acceptance and also have proved to be very satisfactory operationally. They have generated revenues 51% above the original forecast for this service made prior to their introduction.

International passenger services continued at a high level of activity, fully utilizing the Boeing 707 aircraft owned by your company; this in spite of the unsettled nature of the North Atlantic charter market. In addition, the inclusive tours to Hawaii, Acapulco, Puerto Vallarta and Montego Bay have proved to be very popular this winter, providing encouraging load factors.

TOTAL PASSENGERS UP 25%



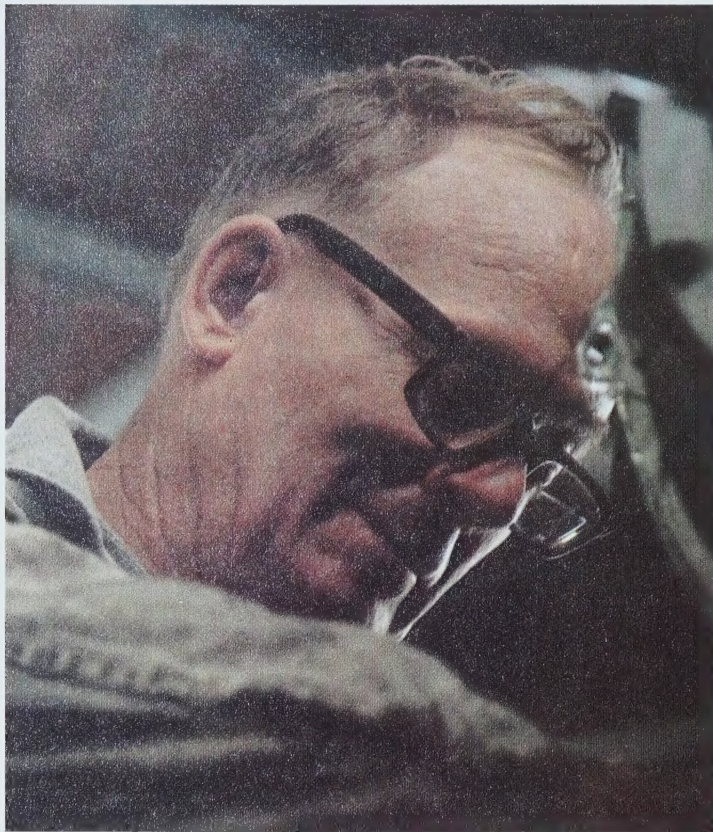
Hercules operations have been maintained at a steady pace during the year with revenues showing an increase of 10% over 1970. The seasonal factors inherent in Northern Operations to unimproved air strips continue to be a problem and alternate work was generated outside Canada, resulting in flights to 50 different countries. 25% of the Hercules activity was outside the country in 1971. The experience and expertise your company has developed continues to open the way to operations in foreign countries.

OPERATING INCOME UP 255%

Pacific Western Trucking Division

(BYERS TRANSPORT and MONARCH TRANSPORT)

As previously reported, an expert in truck line operations was engaged to assist in maximizing the potential of the company's trucking subsidiary through an in-depth study of its equipment and operations. It appeared advantageous to broaden the revenue base in order to dilute the fixed cost of operations. This was achieved by the acquisition of Monarch Transport, a company which operated over many of the same routes as Byers. Considerable realignment of the organization and equipment of the two companies, together with a closer



relationship and identification with Pacific Western through the use of the corporate colours and insignia on the vehicles, and the name Pacific Western Trucking Division, has already indicated a very favourable effect. The 1972 forecasts for this subsidiary are considered to be both satisfactory and achievable.

Personnel

Staff relations during the year remained satisfactory and contracts were signed with CALPA — the pilots' association, with CALDA — the dispatchers' association, and with I.A.M. — the mechanics' association. The

OPERATING CASH GAIN UP 70%

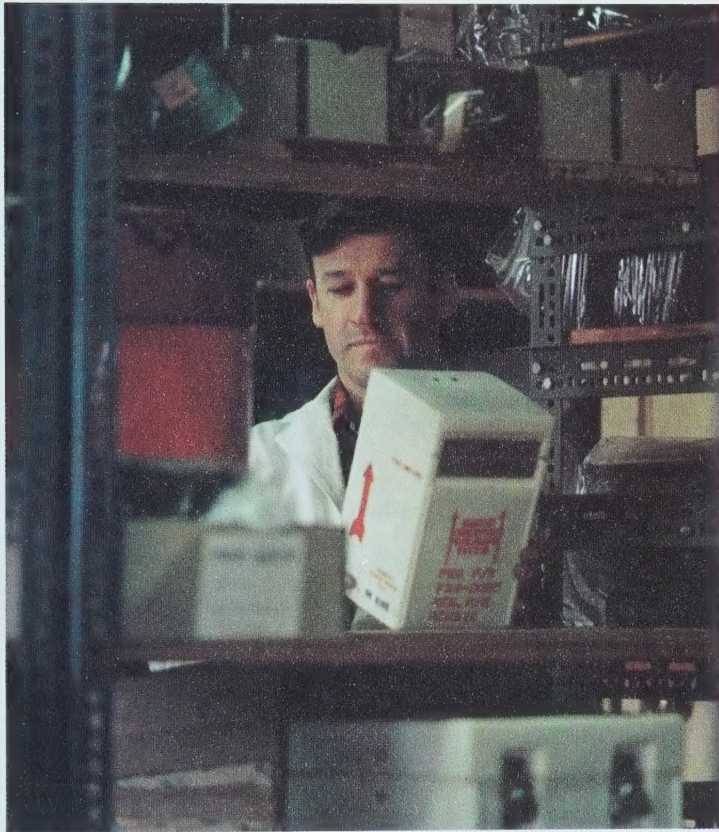


Station Services and Reservations personnel were certified by the Canadian Airline Employees Association and an agreement is presently being negotiated. A contract with the Flight Attendants' Association is also being negotiated.

The total work force of the airline at December 31, 1971, stood at 1352 — up modestly from 1341 at the same date the year previous, notwithstanding the substantial increase in activity. Productivity per employee, as measured by revenue generated, increased by 11% reflecting the ability of the employees to respond immediately to the changes in techniques and also the effectiveness of the realignment of the organization that took place during the year.

Future Outlook

The year 1972 started off unusually well for the normally slack month of January. We were then faced with an Air Traffic Controllers' strike for eleven days. Fortunately, we had aircraft operating in Ethiopia and in the Arctic Islands, which is not a controlled area. This permitted full Hercules operations plus some specially authorized Electra resupply flights. Our 707 International operations were conducted from Seattle, Washington, and Great Falls, Montana, with some attendant increase in expense. The IBEW Technician's strike had little economic effect on your company, but resulted in some extraordinary use



of management time. Present indications are that we should more than recover from the ATC strike by mid-year. Activity levels are intensifying in most areas, but particularly in the High North. The North of course is greatly affected by the increasing exploration for petroleum and the attendant studies of possible pipeline construction.

Your company will soon be disposing of its last three DC-6 aircraft which are piston powered with attendant low public acceptance and accelerating maintenance problems. It is planned to replace them with one Lockheed Electra with a convertible passenger/cargo cabin. The



aircraft will bring about some encouraging economies in those areas still being serviced by DC-6 equipment. The fact that the Electras are also powered by Allison

OPERATING REVENUE UP 11%

engines similar to those used in the Hercules will result in spares and maintenance economies. Additionally, in order to augment your Arctic fleet and to avoid the acquisition at this time of another Hercules, it is planned to lease, for a period of one year initially, an Electra tanker aircraft for the haulage of bulk fuel. This will permit us to meet present demands and release Hercules for longer haul specialty operations for which they are so uniquely suited. These fleet changes, together with the planned addition of a fifth Boeing 737 Fan Jet, will permit your company to retire all of its piston-engined aircraft with the exception of two Mallard amphibian flying boats

CARGO TON MILES FLOWN UP 12%



required to service those areas where land airports do not exist, and thus become the first Canadian regional carrier to have an essentially all-turbine-powered fleet.

All of the tests of the economy that we have made in our area of operations, supported by many common indicators, point to an active and buoyant outlook for 1972 and beyond.

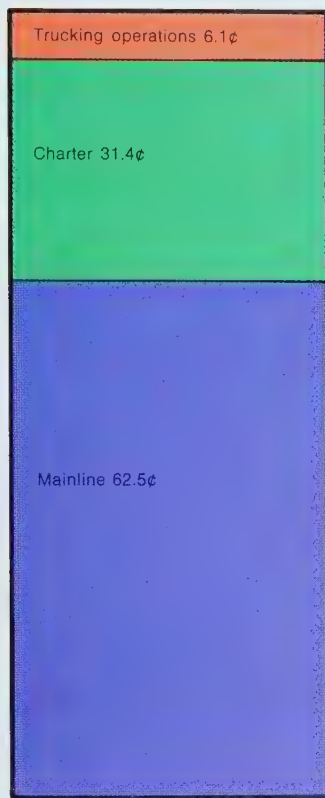
Respectfully submitted,

W. R. Harris

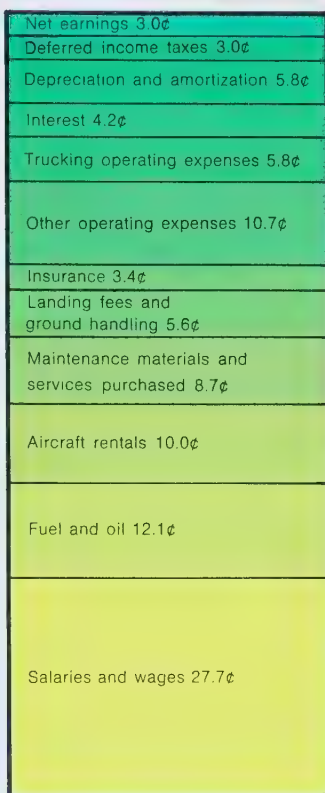
W. R. HARRIS, Vice-President and General Manager

DOLLAR DISTRIBUTION – 1971

REVENUE

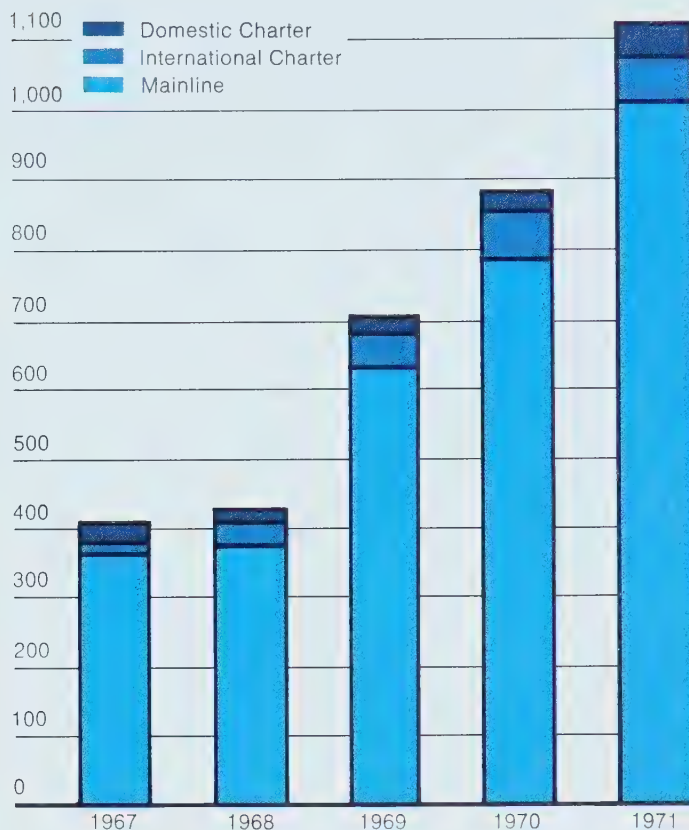


EXPENSES



PASSENGERS CARRIED:

Thousands



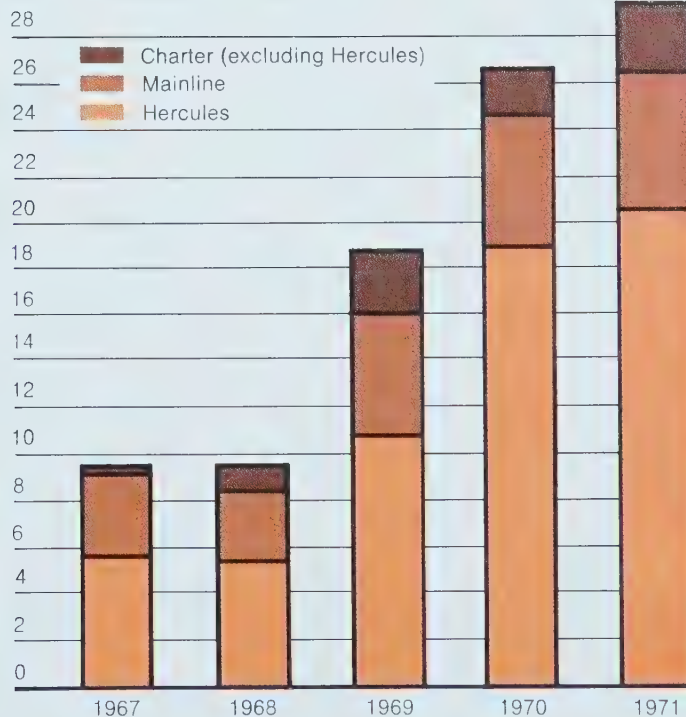
REVENUE:

Millions



CARGO TON MILES:

Millions



CONSOLIDATED BALANCE SHEET

December 31, 1971 (with comparative figures for 1970)

ASSETS	1971	1970
Current assets:		
Cash	\$ 541,489	99,974
Cash held in trust for International Charter deposits	334,004	226,190
Accounts receivable	6,102,569	5,312,608
Refundable deposits on new equipment	671,346	99,738
Inventory of parts, material and supplies, at the lower of cost or net realizable value	1,255,207	1,311,596
Prepaid expenses	906,464	883,757
Total current assets	9,811,079	7,933,863
Rental deposits on leased flight equipment	2,006,829	1,785,706
Property and equipment, at cost less depreciation (Note 3):		
Flight equipment	26,226,368	24,931,903
Land, buildings and ground facilities	5,823,164	5,576,921
	32,049,532	30,508,824
Less accumulated depreciation and provision for overhauls	10,556,256	9,048,095
	21,493,276	21,460,729
Deposit on purchase of flight equipment	771,088	—
Property and equipment, net	22,264,364	21,460,729
Deferred charges less amortization, and other assets:		
Introductory costs of new aircraft and services (Note 4)	1,179,637	1,605,809
Debt financing expenses	80,155	136,878
Investments, at cost	109,581	228,043
Total deferred charges and other assets	1,369,373	1,970,730
Excess of cost of investments in subsidiary companies over their net book value at time of acquisition and goodwill	2,293,899	2,596,746
	\$37,745,544	35,747,774

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	1971	1970
Current liabilities:		
Bank indebtedness, secured by a general assignment of accounts receivable	\$ 69,000	305,000
Accounts payable and accrued expenses	6,157,872	6,514,730
Dividend payable	231,873	—
Current portion of long-term debt (Note 5)	1,867,506	1,920,668
Unearned transportation revenue:		
Domestic	180,000	190,063
International	299,282	228,696
Total current liabilities	8,805,533	9,159,157
Long-term debt (Notes 5 and 6)	16,813,675	18,932,136
Deferred income taxes (Note 7)	2,123,918	1,019,000
Shareholders' equity:		
Capital stock (Note 8)	5,517,626	3,036,576
Retained earnings, per accompanying statement (Notes 7 and 9)	4,484,792	3,600,905
Total shareholders' equity	10,002,418	6,637,481

Commitments (Note 10).

On behalf of the Board:

B. C. SAMIS, Director

D. N. WATSON, Director

\$37,745,544	35,747,774
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CONSOLIDATED STATEMENT OF EARNINGS

Year ended December 31, 1971 (with comparative figures for 1970)

	1971	1970
Operating revenues:		
Mainline:		
Passenger	\$25,529,487	19,662,825
Cargo	3,412,705	2,768,063
Mail	1,242,867	1,065,378
Total mainline	30,185,059	23,496,266
Charter	15,169,216	17,045,566
Trucking operations	2,944,653	2,846,811
Total operating revenues	48,298,928	43,388,643
Operating expenses:		
Flying operations	16,756,506	15,974,122
Maintenance (Note 3)	7,962,279	7,315,144
Aircraft and traffic servicing	6,839,908	6,218,391
Passenger service	1,980,823	2,255,829
Trucking operations	2,807,814	2,490,675
Marketing	1,707,367	1,840,505
General and administrative	2,758,691	2,885,254
Total operating expenses	40,813,388	38,979,920
Operating income before depreciation and amortization	7,485,540	4,408,723
Depreciation (Note 3)	2,160,719	2,435,169
Amortization of introductory costs (Note 4)	638,536	652,036
	2,799,255	3,087,205
Operating income	4,686,285	1,321,518
Other income	239,194	383,133
Interest and amortization of financing expenses on long-term debt ..	(2,014,534)	(2,104,475)
Earnings (loss) before income taxes	2,910,945	(399,824)
Deferred income taxes (Note 7)	1,473,101	(168,200)
Net earnings (loss)	\$ 1,437,844	(231,624)
Earnings (loss) per common share (Note 11)	\$ 1.46	(.32)
Fully diluted earnings per common share (Note 11)	\$ 1.26	

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended December 31, 1971 (with comparative figures for 1970)

	1971	1970
Balance at beginning of year:		
As previously reported	\$ 3,600,905	3,941,735
Retroactive adjustment in respect of provision for overhauls	—	86,331
As restated	3,600,905	4,028,066
Adjustment of deferred income taxes accumulated in prior years (Note 7)	(15,000)	(132,000)
	3,585,905	3,896,066
Net earnings (loss) for the year	1,437,844	(231,624)
	5,023,749	3,664,442
Dividends:		
First preferred shares	49,531	55,500
Second preferred shares	7,173	8,037
Common shares	231,873	—
	288,577	63,537
Cost of issuing \$2.20 redeemable preferred shares Series A and redeeming first and second preferred shares, net of income taxes	250,380	—
	538,957	63,537
Balance at end of year	\$ 4,484,792	3,600,905

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended December 31, 1971 (with comparative figures for 1970)

	1971	1970
Funds provided by:		
Operations:		
Net earnings (loss)	\$ 1,437,844	(231,624)
Add charges not requiring cash expenditure	4,065,412	3,806,681
Funds provided by operations	5,503,256	3,575,057
Issue of \$2.20 redeemable preferred shares Series A	3,318,240	—
Bank term loan	4,300,000	700,000
Disposal of equipment	349,627	315,621
Total funds provided	13,471,123	4,590,678
Funds applied to:		
Property and equipment	2,879,478	2,822,246
Less amount financed through long-term debt	166,386	726,703
	2,713,092	2,095,543
Reduction of long-term debt	6,757,826	2,861,128
Redemption of first and second preferred shares	1,114,450	—
Introductory costs of new aircraft and services	212,364	305,109
Purchase of subsidiary company, net of shares and debentures issued and including working capital deficiency of \$683,526	—	883,526
Dividends	288,577	63,537
Other	153,974	(304,201)
Total funds applied	11,240,283	5,904,642
Increase (decrease) in working capital	2,230,840	(1,313,964)
Working capital (deficiency) at beginning of year	(1,225,294)	88,670
Working capital (deficiency) at end of year	\$ 1,005,546	(1,225,294)

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1971

1. PRINCIPLES OF CONSOLIDATION:

The consolidated balance sheet includes the assets and liabilities of the company and all of its subsidiaries.

The consolidated statements of earnings and retained earnings include the results of operations of the company and all of its subsidiaries for the year ended December 31, 1971, except for the results of operations of Monarch Transport Ltd. which was acquired on December 15, 1971.

2. CONVERSION OF FOREIGN CURRENCIES:

Current assets and current liabilities in U.S. funds have been converted into Canadian dollars at the rate of exchange in effect at December 31, 1971.

3. PROPERTY AND EQUIPMENT:

Fixed assets, with the exception of aircraft spare parts, are depreciated on a straight-line basis at varying rates dependent upon their estimated useful life with appropriate provision for residual values. Aircraft spare parts are depreciated on the diminishing balance basis.

Provision for airframe and engine overhaul costs is made by an hourly overhaul charge, except for Boeing 737 aircraft where no provision is made because of a change in late 1970 in the overhaul requirements on these aircraft whereby the planned life cycle no longer entails a periodic major overhaul, but instead, requires periodic shop visits and repair. This policy for the Boeing 737 aircraft was adopted in 1971 and, as a result, maintenance expense is \$216,000 lower and net earnings after income taxes are \$109,000 greater than if the previous policy had been continued.

4. INTRODUCTORY COSTS OF NEW AIRCRAFT AND SERVICES:

Initial flight crew training expenses and pre-operating costs of the Convair 640, Lockheed Hercules and Boeing 707 and 737 aircraft and pre-operating costs of new routes and services have been deferred. These costs are being amortized on a straight-line basis over five years.

5. LONG-TERM DEBT:

	Total	Due within one year	Non- current
Parent company:			
7% Convertible Sinking Fund Debentures Series AA due June 1, 1982; with an annual sinking fund requirement of \$280,000 from 1973 through 1981 and the balance in 1982	\$ 2,808,000	—	2,808,000
12% Mortgage payable on Boeing 737 aircraft. Payable at \$55,815 monthly, including interest, to April 1981	4,122,645	184,881	3,937,764
14% Mortgage payable on Hercules 382 aircraft. Payable at \$71,420 monthly, including interest, to December 1974. Balance renewable for another 5 years at the interest rates prevailing at that time (see Note A below)	4,111,458	300,255	3,811,203
Bank loans (see Note B below):			
6½% Revolving term loan due June 1973	1,800,000	—	1,800,000
8% Special term loan. Payable at \$125,000 quarterly to October 1976	2,500,000	500,000	2,000,000
Lease purchase obligations on various flight equipment payable by monthly instalments, including interest, at various dates up to January 1975	1,614,720	379,953	1,234,767
7% Notes payable, secured by a debenture on the assets of B.C. Air Lines Limited, payable in four annual instalments of \$250,000 commencing August 1972	1,000,000	250,000	750,000
Other agreements, payable at various dates	260,695	78,824	181,871
Total parent company	18,217,518	1,693,913	16,523,605
Subsidiary company:			
7% Debenture payable over 5 years	270,000	90,000	180,000
Finance contracts payable at various dates, net of deferred finance charges	139,015	75,398	63,617
Other agreements, payable at various dates	54,648	8,195	46,453
Total subsidiary company	463,663	173,593	290,070
	<u>\$18,681,181</u>	<u>1,867,506</u>	<u>16,813,675</u>

(A) Subsequent to December 31, 1971 this mortgage has been repaid from the proceeds of an 8½% (2¾% above bank prime lending rate) \$4,150,000 term loan, secured by a \$4,200,000 registered demand debenture providing a first charge on a Hercules 382 aircraft and parts, and a second floating charge on the remaining assets of the company. Accordingly, the sinking fund requirements and maturities of long-term debt for the next five years, presented in Note 6, have been presented on the basis of the repayment schedule of this new term loan.

(B) The company has issued under a Deed of Trust and Mortgage a debenture in the principal amount of \$5,000,000 and pledged the same as general security for its bank loans. This Trust Deed constitutes a specific charge on the Convair 640 aircraft and spare parts and a floating charge on all of the company's assets and undertaking.

6. DEBT MATURITY:

Sinking fund requirements and maturities of long-term debt for the next five years are as follows:

1972	\$ 1,971,205
1973	4,055,359*
1974	2,050,024
1975	1,958,280
1976	1,691,343
	<u>\$11,726,211</u>

* Includes \$1,800,000 revolving term bank loan.

7. DEFERRED INCOME TAXES:

The company has claimed for tax purposes certain deferred charges and capital cost allowance in excess of depreciation recorded in the accounts. Effective January 1, 1968, in accordance with a recommendation of the Canadian Institute of Chartered Accountants, the company decided to adopt for 1968 and future years the policy of charging to earnings the deferred taxes which arise from these timing differences. The balance at December 31, 1971 of unrecorded deferred taxes relating to these differences is \$1,800,000.

This amount does not recognize the unrecorded tax benefit of approximately \$30,000 at December 31, 1971, which the company's subsidiary, B.C. Air Lines Limited, would realize should it have taxable earnings in the future against which its loss-carry-forward and timing differences could be offset. As these benefits are realized, the excess cost arising on the acquisition of this subsidiary will be credited. In accordance with this practice, excess cost has been credited during the year ended December 31, 1971 and since acquisition by \$349,728.

The 1971 adjustment of deferred income taxes shown in the statement of retained earnings is the reduction of the unrecorded deferred taxes relating to a subsidiary company for periods prior to 1968.

8. CAPITAL STOCK:

\$2.20 redeemable preferred shares Series A without nominal or par value. Authorized and issued 120,000 shares	\$ 3,540,000
Common shares without nominal or par value. Authorized 1,500,000 shares, issued 927,492 shares	1,977,626
	<u>\$ 5,517,626</u>

The \$2.20 redeemable preferred shares Series A are redeemable on or after December 1, 1976 at the option of the company at \$31.70 per share up to and including November 30, 1977, and reducing by \$.44 in each year thereafter to \$29.50.

Each of the \$2.20 redeemable preferred shares Series A are exchangeable at the option of the holders at any time on or prior to December 1, 1978 for two common shares.

The following changes in capital stock took place during the year ended December 31, 1971:

	No. of shares	Value
6% cumulative redeemable sinking fund first preferred shares of \$10.00 par value redeemed out of the proceeds of issue of a debenture	92,500	\$ 925,000
6% cumulative redeemable sinking fund second preferred shares of \$10.00 par value redeemed out of the proceeds of issue of a debenture	13,395	\$ 133,950
\$2.20 redeemable preferred shares Series A without nominal or par value issued for cash	120,000	\$ 3,540,000

Common shares are reserved as follows:

	No. of shares
(i) For conversion of 7% Debentures Series AA convertible into 70 common shares for each \$1,000 debenture if converted on or before June 1, 1972 and into 50 common shares if converted after June 1, 1972 and on or before June 1, 1977, subject to the adjustment provided for by the Trust Indenture under which the said Debentures are issued if common shares are issued for less than \$14.28 on or before June 1, 1972 and thereafter until June 1, 1977 at a price less than \$20.00	196,560
(ii) Under options granted certain company officers exercisable to a maximum of 6,000 shares in the period ending February 1, 1972 and to a maximum of 6,000 shares in the period commencing February 2, 1972 and ending June 1, 1972 at a price of \$14.85 per share	12,000
(iii) Under an option granted as a part of the consideration for the purchase of B.C. Air Lines Limited exercisable at \$14.30 per share until May 31, 1972 and thereafter to expiry, August 11, 1975, at \$20.00 per share	30,000
(iv) For exchange of the \$2.20 redeemable preferred shares Series A	240,000
	<u>478,560</u>

9. DIVIDENDS:

The Articles of Association of the company pertaining to the \$2.20 redeemable preferred shares Series A and the Trust Indenture pertaining to the debentures of the company contain, among other provisions, a restriction on the payment of dividends. Under these restrictions, retained earnings of \$759,000 as of December 31, 1971 are available for the payment of dividends.

10. COMMITMENTS:

The company and its subsidiaries are obligated under long-term lease agreements for aggregate basic annual rentals of approximately \$4,582,000, \$4,153,000, \$4,050,000, \$4,015,000, and \$3,995,000 in each of the years ending December 31, 1972 to 1976 respectively.

The company has a commitment to acquire a Boeing 737 aircraft for delivery in April, 1972 at an estimated cost of \$5,800,000. The company is negotiating long-term financing for the acquisition of this aircraft.

11. EARNINGS (LOSS) PER COMMON SHARE:

The per share figures have been computed by dividing the net earnings or loss, after accrual of preferred share dividends, by the weighted average number of common shares outstanding during each year.

In calculating fully diluted earnings per share, the weighted average number of common shares outstanding has been calculated assuming:

- (a) All the convertible debentures outstanding at December 31, 1971 had been converted into common shares on January 1, 1971;
- (b) All options outstanding at December 31, 1971 had been exercised on January 1, 1971;
- (c) All preferred shares outstanding at December 31, 1971 had been exchanged for common shares on November 15, 1971, the date of issue.

Net earnings used in this calculation reflect the reduction in interest cost, imputed earnings on exercise of share options, reduction of preferred share dividends, and the related effect on income taxes resulting from the above assumptions.

12. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

The aggregate remuneration of directors, senior officers and certain operating personnel of the company, as defined by the B.C. Securities Act, amounted to \$327,166 for the year 1971, of which \$2,000 represents directors' fees paid in 1971.

13. COMPARATIVE FIGURES:

The comparative figures for 1970 have been reclassified according to the presentation used in the 1971 consolidated financial statements.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Pacific Western Airlines Ltd. and its subsidiary companies as of December 31, 1971 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles which have been applied on a basis consistent with that of the preceding year, except for the change, with which we concur, in providing for overhaul costs on certain engines as described in Note 3 of the notes to consolidated financial statements.

PEAT, MARWICK, MITCHELL & CO.,
Chartered Accountants

Vancouver, British Columbia
February 4, 1972

10 YEAR SUMMARY

(all figures in thousands)

FINANCIAL STATISTICS

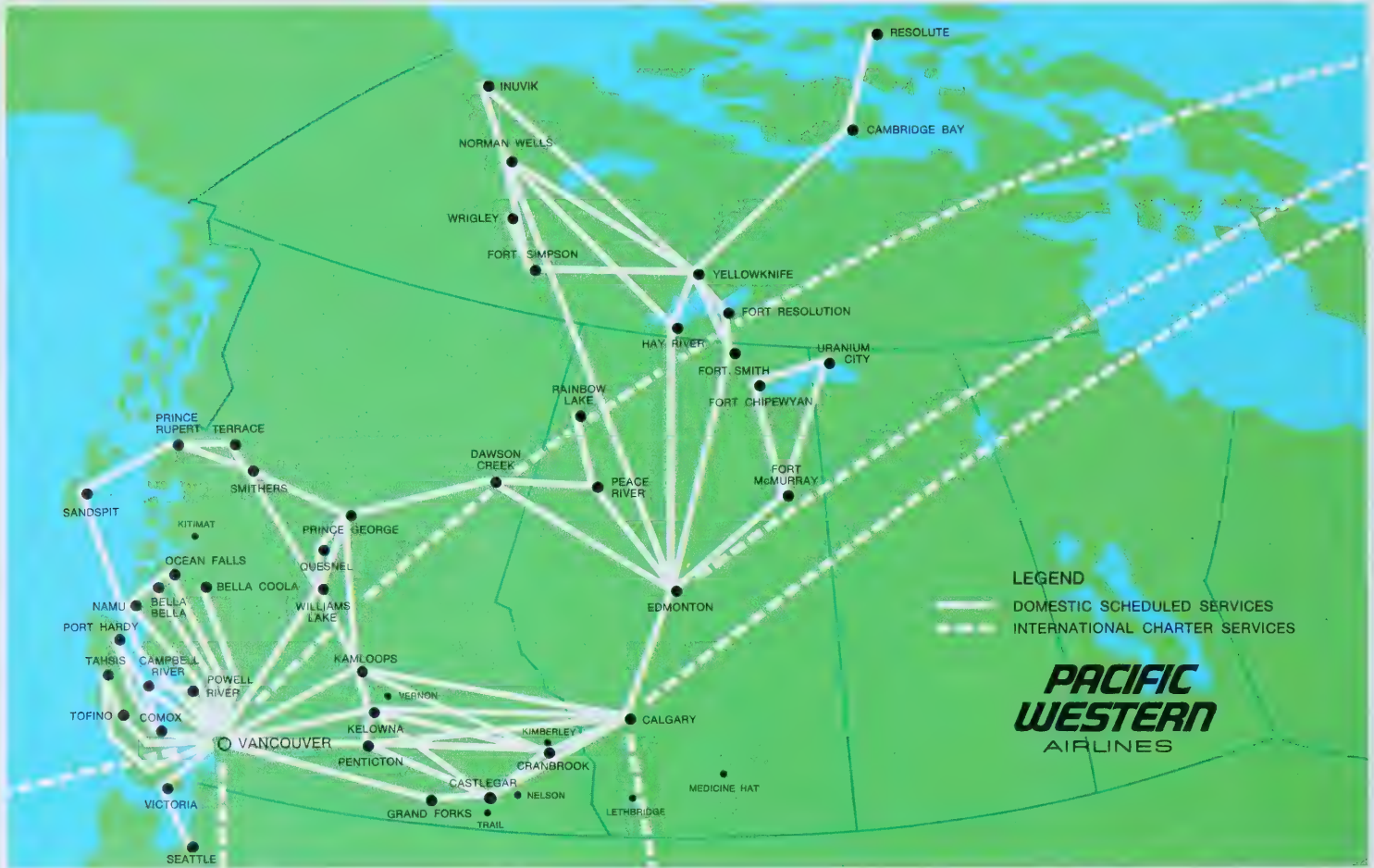
	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
Mainline revenue	\$30,185	\$23,496	\$17,978	\$11,082	\$10,308	\$ 8,583	\$ 7,133	\$ 5,563	\$ 4,285	\$ 3,977
Contract and charter revenue										
Hercules — cargo	7,742	7,019	5,597	1,823	1,425	—	—	—	—	—
International — passenger	4,741	7,962	5,463	3,747	1,548	1,813	1,870	1,338	—	—
Multi-engine aircraft (excluding International and Hercules)	2,686	2,065	2,337	919	1,097	1,021	827	662	663	418
Single-engine aircraft	—	—	—	47	556	782	1,675	1,279	1,284	1,201
Trucking operations	2,945	2,847	2,500	—	—	—	—	—	—	—
Government subsidy	—	—	—	—	—	—	—	—	—	284
Total revenue	\$48,299	\$43,389	\$33,875	\$17,618	\$14,934	\$12,199	\$11,505	\$ 8,842	\$ 6,232	\$ 5,880
Funds provided by operations	5,503	3,575	2,435	2,054	2,184	1,606	1,041	691	457	218
Depreciation and amortization	2,799	3,087	2,058	1,389	1,336	480	395	367	373	587
Equipment purchased	2,879	2,822	13,650	1,701	6,949	6,016	1,454	703	450	836
Income taxes										
Paid (recovered)	—	—	—	—	—	(57)	310	8	—	(63)
Deferred (Note 1)	1,494	(162)	194	242	237	500	119	113	54	(128)
Gain (loss) on disposal of equipment (after deferred income taxes) (Note 2)	(22)	(69)	440	110	91	292	24	49	5	(22)
Net earnings (loss)	1,438	(232)	584	311	317	734	461	180	57	(191)
Reduction of long-term debt	6,758	2,861	3,821	1,889	2,641	1,295	344	375	347	334
Dividends										
Preferred shares	57	64	64	64	67	70	70	124	15	70
Common shares	232	—	—	—	—	—	—	—	—	—

OPERATING STATISTICS

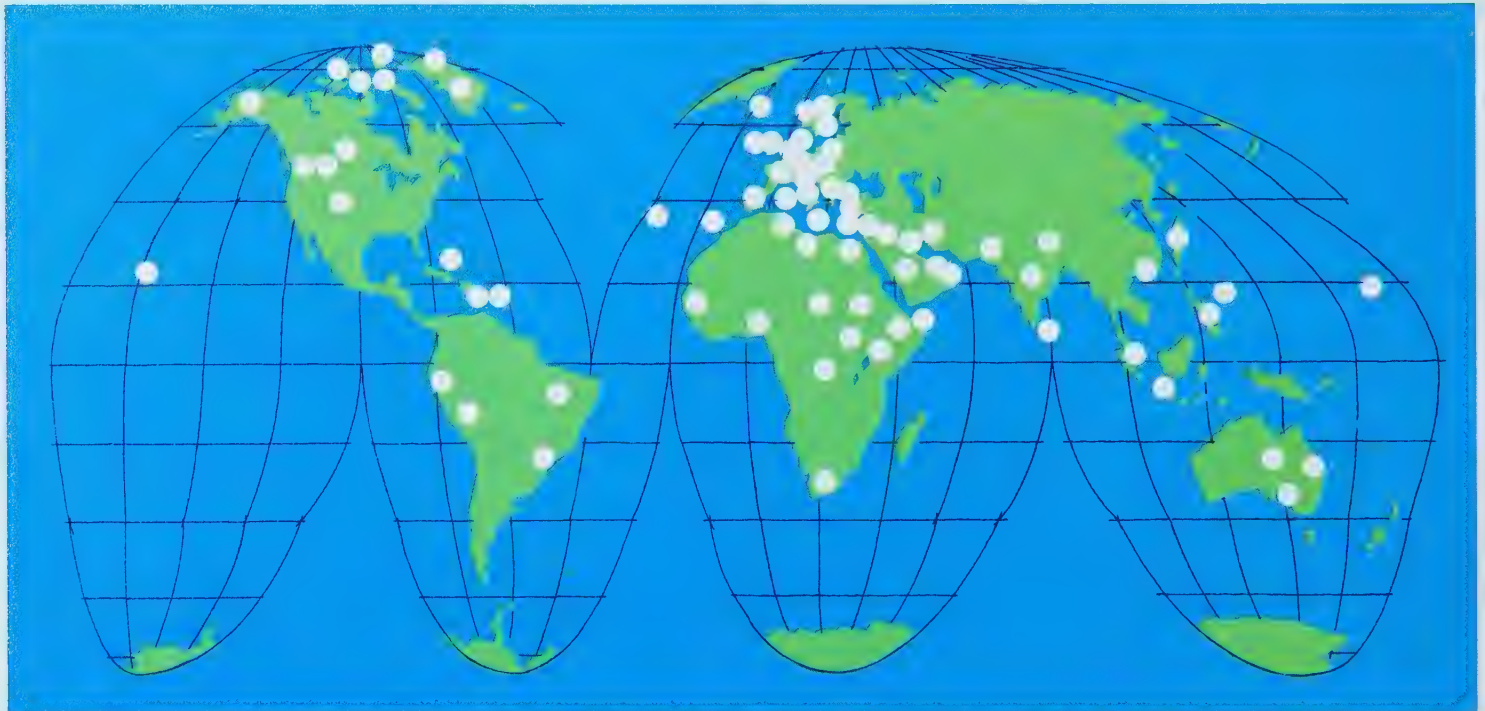
Mainline										
Passengers carried	1,037	789	627	371	364	302	230	180	127	121
Cargo carried (lbs.)	21,595	18,732	15,987	11,408	12,158	10,582	12,429	9,787	8,355	7,310
Passenger miles flown	256,452	209,007	168,068	95,426	92,909	77,877	56,813	43,347	34,073	33,828
Ton miles flown	31,971	26,455	21,834	13,097	12,939	11,035	9,202	6,961	5,409	5,194
Aircraft miles flown	6,922	6,065	5,501	3,191	3,732	3,217	2,844	2,426	1,992	1,993
Contract and charter										
Hercules aircraft miles flown	2,050	1,992	1,288	578	563	—	—	—	—	—
International passenger service aircraft miles flown	1,530	2,603	1,750	1,117	670	744	842	726	—	—
Other multi-engine aircraft miles flown	940	851	908	484	544	657	466	399	384	218

Note 1: In order to present a proper comparison of earnings, the presentation of earnings for 1962 to 1967 has been amended to reflect the amount of deferred income taxes applicable to each year.

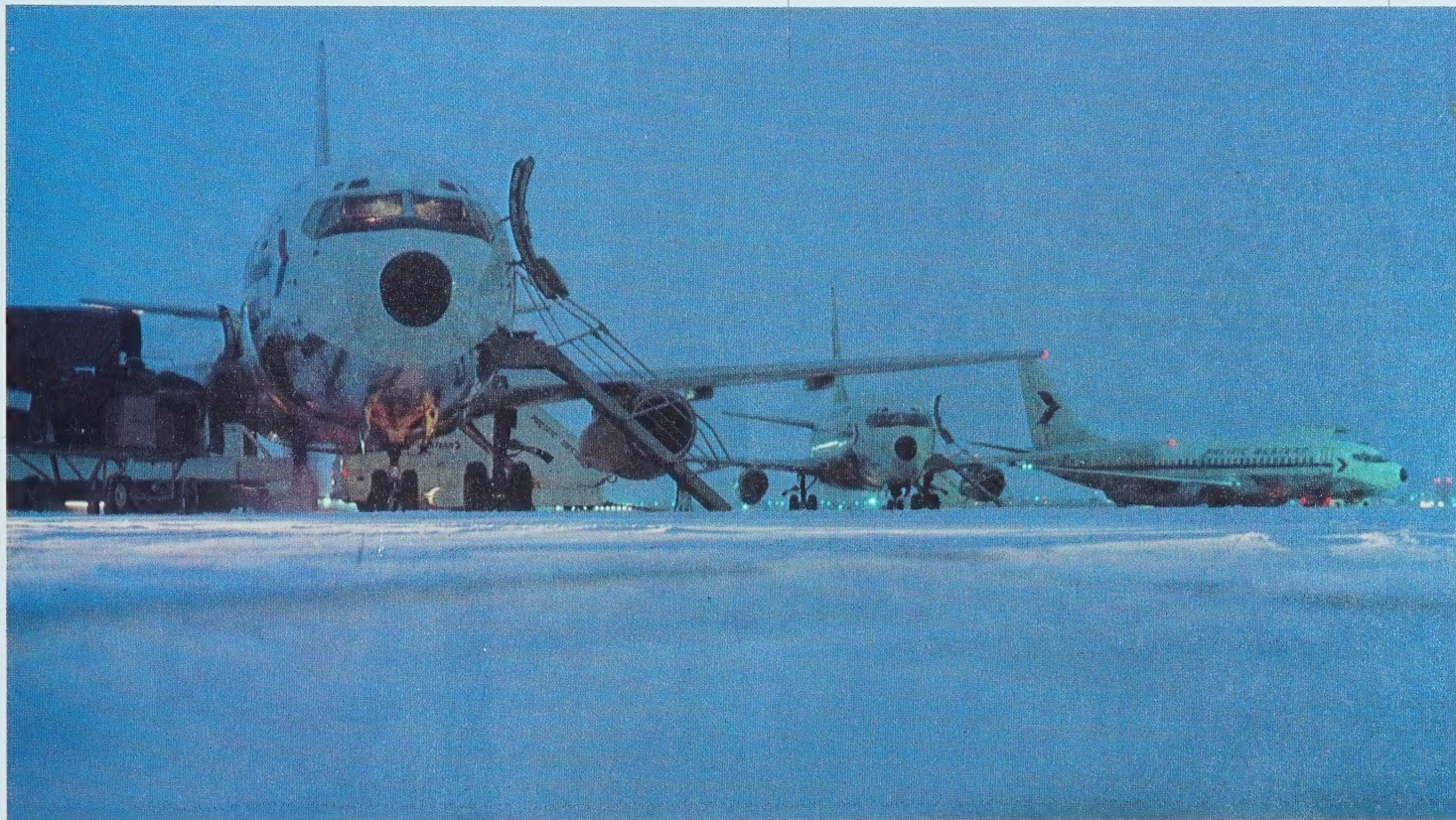
Note 2: Loss on disposal of fixed assets before deferred income taxes was included in "Other Income" in the 1971 Statement of Earnings; however, to be consistent with our ten year summary the loss on disposal has been reclassified for 1971.



HERCULES POINTS OF CALL 1971



Airlines Survey
10 pics + 6 pics



DIRECTORS

- B. C. SAMIS
Chairman of the Board
Director, Dominion Securities,
Investment Dealers,
Vancouver, B.C.
- W. J. BORRIE
Chairman, Pemberton Securities Ltd.,
Investment Dealers,
Vancouver, B.C.
- C. W. BRAZIER, Q.C.
Partner, Davis & Company,
Barristers & Solicitors,
Vancouver, B.C.
- J. D. HAGAR
Investment Dealer (Retired),
Vancouver Island, B.C.
- E. W. KING
President, Canadian Utilities Ltd.,
Edmonton, Alberta
- D. H. SEARLE
Partner, Searle & Finall,
Barristers & Solicitors,
Yellowknife, N.W.T.
- R. D. SOUTHERN
President, ATCO Industries Ltd.,
Calgary, Alberta
- D. N. WATSON
President, Pacific Western Airlines Ltd.,
Vancouver, B.C.

HEAD OFFICE

Vancouver Airport, B.C.

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company,
Vancouver, B.C.
Victoria, B.C.
Edmonton, Alta.
Regina, Sask.
Winnipeg, Man.
Toronto, Ont.
Montreal, Que.

BANKERS

Canadian Imperial Bank of Commerce
The Mercantile Bank of Canada

OFFICERS

- D. N. WATSON
President
- W. R. HARRIS
Vice-President and General Manager
- R. T. EYTON
Vice-President, Northern Region
- D. F. GRANGER
*Vice-President, Finance
and Secretary*
- R. L. LAKE
Vice-President, Technical Services
- J. C. S. MILES
Vice-President, Operations
- A. J. MOUL
*Vice-President, Cargo
and Contracts*

SHAREHOLDERS' AUDITORS

Peat, Marwick, Mitchell & Co.,
Vancouver, B.C.

SHARES LISTED

Vancouver Stock Exchange

SUBSIDIARY COMPANIES

(Wholly Owned)

Pacific Western Airlines (Alberta) Ltd.
Aero Engineering Limited
Queen Charlotte Airlines Ltd.
Silver Wings Aviation Ltd.
Byers Transport Limited
Monarch Transport Ltd.
B.C. Air Lines Limited

SENIOR STAFF

HEAD OFFICE — VANCOUVER

D. J. ALMAS	<i>Director of Revenue Forecasting</i>
W. J. BRYAN	<i>Director of Engineering & Mt'ce Services</i>
G. J. COOKE	<i>Director of Customer Services</i>
T. W. CROSS	<i>Director of Training</i>
R. W. CULLEN	<i>Director of Budgeting</i>
W. DOBIN	<i>Director of Maintenance</i>
A. R. EDDIE	<i>Director of Industrial Relations</i>
K. E. FRANSBERGEN	<i>Director of Flight Operations</i>
L. G. FRASER	<i>Director of Safety and Insurance</i>
D. R. JACOX	<i>Director of Community & Interline Affairs</i>
M. G. PEARSON	<i>Director of Marketing</i>
E. E. PEZZOT	<i>Director of Operational Planning</i>
J. M. ROBINS	<i>Director of Management Services and Corporate Planning</i>
L. SAMBELL	<i>Director of Cost Standards and Systems</i>
C. STEWART	<i>Director of Quality Control</i>
F. H. TOY	<i>Director of Communications</i>
R. W. WILSON	<i>Director of Materiel Control</i>
A. W. CORBETT	<i>Controller</i>
R. W. BENALLICK	<i>Treasurer</i>
J. M. CARTER	<i>Internal Auditor</i>
H. LUTHER	<i>Manager, Data Processing</i>
E. CARON	<i>Manager, Station Services</i>
A. CRAIG	<i>Manager of Credit</i>
J. DEARN	<i>Manager of Stores</i>
B. EMERY	<i>Manager of Engineering</i>
G. M. GARVIN	<i>Manager, Public Relations and Advertising</i>
K. E. GRAY	<i>Manager, International Charter Operations</i>
G. J. HERDMAN	<i>Manager, Revenue Accounting</i>
B. F. MULLER	<i>Manager, Passenger Services</i>
R. J. NOON	<i>Manager, Reservation Services</i>
N. R. PRICE	<i>Manager, Property and Equipment</i>
D. R. PENGELLY	<i>Manager, Purchasing</i>
F. A. WELBOURN	<i>Manager, Personnel</i>
F. A. WOODMAN	<i>Manager, In-Flight Services</i>

WESTERN REGION — VANCOUVER

J. T. ARMSTRONG	<i>Manager, Terminal Operations</i>
T. BOND	<i>Manager, Claims</i>
D. DELHAYE	<i>Manager, Station Services</i>
J. M. MILES	<i>Manager, District Sales Vancouver</i>
G. PETRI	<i>Manager, Passenger Services</i>
H. PORTER	<i>Manager, Maintenance</i>
I. C. RENNIE	<i>Manager, District Sales Kelowna</i>
M. WATERS	<i>Manager, Reservation Services</i>
B. WEBB	<i>Manager, Equipment Routing</i>
J. WILLIS	<i>Manager, District Sales Victoria</i>

Station Managers

F. BELANGER	<i>Grand Forks</i>
S. BULLOCK	<i>Prince George</i>
D. CLUNIE	<i>Dawson Creek</i>
A. COCKBURN	<i>Victoria</i>
B. EHMAN	<i>Castlegar</i>
H. FRANK	<i>Comox</i>
C. FOWLER	<i>Kelowna</i>

D. HANEMAN	<i>Cranbrook</i>
J. HUIBERS	<i>Kamloops</i>
L. JONES	<i>Campbell River</i>
B. LAMBERTSON	<i>Port Hardy</i>
G. OHRN	<i>Quesnel</i>
G. RADFORD	<i>Powell River</i>
L. STANNARD	<i>Vancouver</i>
R. SHELTON	<i>Penticton</i>
D. SHINNAN	<i>Smithers</i>
G. SNIDER	<i>Williams Lake</i>
J. TESSMER	<i>Prince Rupert</i>
M. VEILLETTE	<i>Sandspit</i>
J. WARMAN	<i>Seattle</i>
R. WALKER	<i>Ocean Falls</i>
R. BARNES	<i>London, England</i>

NORTHERN REGION — EDMONTON

J. BUCHANAN	<i>Manager, Claims</i>
A. C. CAMPBELL	<i>Asst. to Vice-President, Northern Region</i>
G. CANNAM	<i>Manager, Maintenance</i>
G. HELTEN	<i>Manager, District Sales Calgary</i>
H. HERBERT	<i>Manager, Public Relations and Advertising</i>
W. HOWIE	<i>Manager, Hercules Administration</i>
A. LEMA	<i>Manager, Terminal Operations</i>
R. B. MACKIE	<i>Chief Pilot</i>
D. MERRIGAN	<i>Manager, Equipment Routing</i>
R. MOORE	<i>Manager, District Sales Edmonton</i>
L. PARRY	<i>Manager, Station Services</i>
H. WENDEL	<i>Manager, Passenger Services</i>
J. R. WILKINSON	<i>Manager, Reservation Services</i>

Station Managers

M. CROTHERS	<i>Cambridge Bay</i>
N. DeHOOG	<i>Fort McMurray</i>
D. DENTON	<i>Fort Smith</i>
D. FISCHER	<i>Edmonton</i>
L. FILIPEK	<i>Hay River</i>
W. GARDNER	<i>Calgary</i>
J. IVENS	<i>Yellowknife</i>
L. JOHNS	<i>Inuvik</i>
J. JARBEAU	<i>Norman Wells</i>
G. McFADDEN	<i>Peace River</i>
D. McNEILL	<i>Uranium City</i>
G. NICOLL	<i>Rainbow Lake</i>
W. PARK	<i>Resolute</i>

